# HOUSING MARKET OUTLOOK

## Sherbrooke CMA

Canada Mortgage and Housing Corporation

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## Labour market to keep growing

The Quebec economy has been growing for 10 years, even though the manufacturing sector has been hard hit for the last few years by a strong Canadian dollar against the U.S. dollar and increased pressure from foreign competition, particularly from Asia. The gross domestic product (GDP) forecasts indicate that the economy will continue to prosper over the next two years as, for 2007 and 2008, it is expected that GDP will grow by 1.7 per cent and 2.3 per cent, respectively.

In the Sherbrooke census metropolitan area (CMA)[1], the good economic performance should result in small gains on the labour market. The anticipated increase of 1 per cent in the number of employed persons over the next two years will bring about the creation of 1,000 jobs this year and 900 next year. The bulk of the growth will come from the production service sector (transportation, warehousing, real estate and leasing, finance, insurance, professional, scientific and

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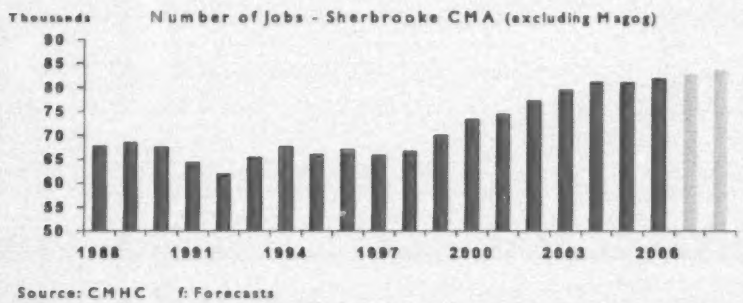
Figure 1

Labour Market to Keep Growing

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technical services, business management, administrative support, etc.). The overall service sector accounts for nearly two out of three jobs in the Estrie region.

The strong labour market will allow Sherbrooke to show positive net intraprovincial migration results over the forecast horizon and also incite foreign migrants to settle in the area.

Given that one in two new jobs will be full-time, a significant impact on housing demand could have been anticipated, all the more so since consumer confidence has been improving overall. However, the decline in the number of households who think that "now is a good time to make a major outlay" for items such as a home or car is not over. Consequently, the impact of the job creation on housing demand may be less significant than it could have been in other circumstances. As a result, the renovation and rental housing markets will benefit the most from the growth of the labour market.

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008. Short-term mortgage rates will also ease as the prime rate nudges down over the next twelve months, while long-term mortgage rates will rise slightly in line with bond rates. One-, three- and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00 and 6.25-7.25 per cent ranges, respectively, over the rest of this year and in 2008.

## Housing starts to slow down

Starts will begin to decline slightly (-7 per cent) this year, falling from 1,545 units in 2006 to 1,435 in 2007. The slowdown will continue in 2008, with starts expected to reach 1,300 units. Despite this decrease, residential construction will remain very vigorous, as the level of activity will be above the average of 1,050 units recorded since the beginning of 1990s. This performance will be attributable to the low mortgage rates that are facilitating the development of real estate projects, a local economy that continues to create jobs and the arrival of many immigrants.

Last year, the construction of a 279-unit retirement home boosted rental housing starts to 779 units. Given that this housing project will meet around two years of demand on the part of Sherbrooke residents aged 75 years or older and that the inventory of unoccupied units provides a good choice, the production of units intended for this market segment will slow down, and some 80 units will be started in Magog, where the supply is relatively less abundant.

The production of traditional rental housing, for its part, is doing well, as the Sherbrooke and Magog rental markets remain tight (vacancy rates of 1.2 per cent and 1.6 per cent, respectively, this past October), which is encouraging the construction of new units. Despite the significant rents resulting from high construction costs, absorption is going at a good pace. There is no accumulation of recent dwellings or expensive units. This past October, only 1 per cent of apartments renting for more than $800 were unoccupied.

En 2007, the vigorous production of units intended for the traditional rental market will limit the decline in rental housing starts to less than 100 units and partly offset the marked decrease in activity in the retirement rental housing segment. This year, construction will get under way on 700 rental housing units. In 2008, on account of the anticipated increase in the rental housing vacancy rate this year (to 1.7 per cent), a more significant decline in activity will be registered, as around 580 rental units will be built.

Figure 2

The construction of freehold dwellings (mostly single-family houses) will also fall in 2007, partly as a result of the growing price gap between new and existing homes. This difference, which was $20,000 in 2005, reached $24,100 in 2006. In relation to the average price of new homes, the price gap has now attained 13 per cent, or the same level as in 2001. This should incite some consumers to opt for an existing home over the months to come or postpone their project. The ever-growing choice of existing homes for sale will facilitate their decision. The decline in starts will be small, however, with only about fifty fewer units. In all, 655 freehold dwellings will be started this year, compared to 709 last year. Semi-detached and row houses will be more affected by this slowdown than single-detached homes, but activity will decrease in each of these market segments.

For 2008, freehold home starts are expected to stabilize (actually, they should rise by a few units). Consumer confidence will strengthen as a result of a new year marked by job creation, relatively stable mortgage rates, the receipt of pay equity settlement cheques from the provincial government and a general salary increase. This will incite some households to realize their cherished housing-related projects.

Condominium starts will increase slightly in the short term, reaching 80 units in 2007 (compared to 57 in 2006). The aging of the population, the purchase of such units by single persons and a potential resort use (in Magog) are supporting demand for this type of housing.

## Fewer existing property sales in the short term

After six years of relatively high levels of existing property sales registered on the Multiple Listing Service (MLS)®, transactions will fall by 9 per cent in 2007 in the Sherbrooke CMA (including Magog). In fact, 1,625 properties, mostly single-family homes, will change owners this year, compared to 1,790 a year earlier. This result will be mainly attributable to the fact that, in recent years, some home buyers purchased their properties earlier than planned, a phenomenon that tends to occur when the market is overheating or very tight (people want to buy while there is still time and in order to avoid part of the expected significant price hikes). With the resale market having eased over the past year and price increases having been below the 10-per-cent mark, the urgency to act is now waning among buyers of more expensive homes ($175,000 or over). The renewed easing of the rental market in 2007 will also contribute to the decrease in existing home sales, as the rental market will offer more choice to meet the needs of households, which will lead to a reduction in home purchases.

In 2008, activity will slowly start rising again and reach 1,700 sales. This movement will be supported by an increase in the number of homes for sale, as well as a healthier economy and still favourable financing conditions. In fact, capital will remain abundant, and the financial market will continue to favour borrowers and not depositors.

The decrease in sales in the short term will support a new rise in listings and lead to a further easing of the resale market. However, the seller-to-buyer ratio should stay below 8 to 1 over the forecast horizon. The market will therefore remain a seller's market. In 2006, this ratio reached 6 to 1, confirming the end of the overheating period on the market overall. For more affordable homes (under $150,000), though, the market will still be overheating. Demand remains significant and, with the continued strong increase in prices, the supply of properties of this type keeps getting scarcer.

The small income property (plex) segment also remains tighter than the market overall. Some households would no doubt like to buy such properties as an investment. However, with prices having risen considerably, there are fewer opportunities offering good returns, and this is limiting sales. It should be noted, though, that there are currently not very many plexes for sale, with their owners likely wishing to hold onto them. In 2006, the seller-to-buyer ratio was 5 to 1 and the vacancy rate was 1.2 per cent. Unoccupied units are therefore easy to rent, which makes this segment attractive to consumers.

Condominiums represent the softest market, with 11 sellers per buyer. While this segment is already a buyer's market overall, this particularly holds true for the Magog area, where condominiums are more expensive (average price of $175,000) than in the Sherbrooke sector ($128,000).

With the easing of the market, the growth in prices for all existing property transactions combined will be less significant than in 2006, when the

average price had risen by 6 per cent. For 2007 and 2008, the average selling price should go up by about 3 per cent.

[1] According to Statistics Canada 's new definition, the Sherbrooke CMA now includes the municipality of Magog. In this report, we used the new geographic area whenever possible. The housing starts and Multiple Listing Service (MLS)® statistics therefore concern the Sherbrooke CMA including Magog.

**Forecast Summary (1)**
**Sherbrooke CMA**
**Spring 2007**

| | 2004 | 2005 | 2006 | 2007f | % chg | 2008f | % chg |
|---|---|---|---|---|---|---|---|
| **Resale Market** | | | | | | | |
| MLS® Sales | 1,178 | 1,829 | 1,789 | 1,625 | -9.2 | 1,700 | 4.6 |
| MLS® New Listings | 707 | 859 | 1,052 | 1,175 | 11.7 | 1,250 | 6.4 |
| MLS® Average Price ($) | 140,800 | 156,300 | 164,400 | 169,300 | 3.0 | 173,600 | 2.5 |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 680 | 714 | 588 | 575 | -2.2 | 600 | 4.3 |
| Multiples | 1,048 | 629 | 957 | 860 | -10.1 | 700 | -18.6 |
| Starts - Total | 1,728 | 1,343 | 1,545 | 1,435 | -7.1 | 1,300 | -9.4 |
| **Average Price ($) - excluding Magog:** | | | | | | | |
| Single-Detached | 155,603 | 177,110 | 191,177 | 202,700 | 6.0 | 212,800 | 5.0 |
| New Housing Price Index (% chg) (Que.) | 6.3 | 4.9 | 4.4 | 0.0 | - | 0.0 | - |
| **Rental Market - excluding Magog** | | | | | | | |
| October Vacancy Rate (%) | 0.9 | 1.2 | 1.2 | 1.7 | 0.5 | 1.8 | 0.1 |
| Two-bedroom Average Rent (October) ($) | 495 | 505 | 515 | 530 | 2.9 | 540 | 1.9 |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 4.80 | 5.80 | 6.30 | 6.40 | 0.10 | 6.29 | -0.12 |
| Mortgage Rate (5 year) (%) | 6.05 | 6.30 | 6.45 | 6.63 | 0.18 | 6.80 | 0.17 |
| Annual Employment Level - excluding Magog | 81,100 | 80,900 | 81,900 | 83 | -100 | 84 | 1 |
| Unemployment rate (%) - excluding Magog | 6.9 | 7.3 | 7.9 | 7.5 | - | 7.4 | - |
| Net Migration - excluding Magog | 1,210 | 1,334 | 1,353 | 1,400 | 3.5 | 1,450 | ** |

(1) According to Statistics Canada's new definition, the Sherbrooke CMA now includes the municipality of Magog. Statistics have been adjusted except where indicated.
MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

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